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21 February 2003

*Presentation to Knowledge Wave 2003 - the Leadership Forum  
February 2003*

"Presentation also available on Forum website - [www.knowledgewave.org.nz](http://www.knowledgewave.org.nz)"

**Presentation for « KNOWLEDGE WAVE: The Leadership forum », 19-21 February, Auckland**

**What works and for whom:  
OECD countries' experiences with active  
labour market policies**

by

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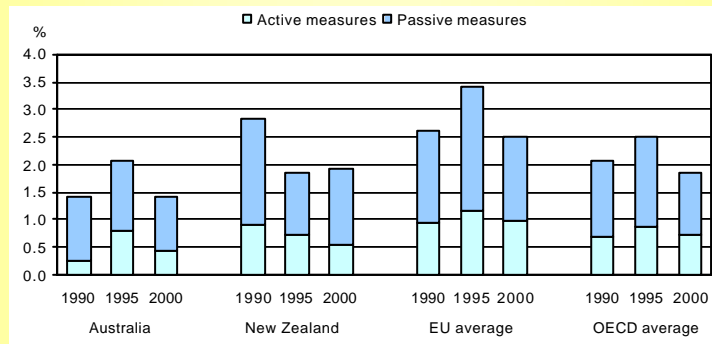
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- **Labour market policies are an important weapon in the fight against high unemployment and social exclusion.**
- **Labour market policies include:**
  - **Unemployment benefits (so-called “passive” policies)**
  - **Measures to help the unemployed find a job (so-called “active” policies)**
    - **Job-search assistance and counselling;**
    - **training;**
    - **Wage subsidies;**
    - **Public sector job creation schemes;**
    - **Special youth employment schemes.**
- **Political objective (see recommendations of the OECD Jobs Strategy and the EU Employment Guidelines):**
  - **Switch resources from “passive” labour market policies to “active” policies.**

### Public spending on labour market programmes Percentage of GDP



Source: OECD Database on Labour Market Programmes.

- On average, OECD countries spent 2% of GDP on labour market policies in 2000.
  - Typically, passive spending accounts for 50-70% of total LMP spending.
  - Past decade has witnessed very limited progress in shifting spending towards active measures.

## What works and what doesn't among ALMPs? Why and for whom?

- OECD countries need answers to these questions.
- Recently, there has been renewed interest in value-for-money evaluations of active policies.
- OECD has been collecting evidence on the effectiveness of active policies and how they should be designed and implemented to get better outcomes.
- Rest of my presentation summarises the lessons from this OECD research.

## 1. Some Caveats about the evaluation literature

- ❑ Many so-called “programme evaluations” do not pass muster.
- ❑ OECD has confined its attention to rigorous evaluation studies which meet certain scientific standards.
- ❑ In the past, most rigorous evaluation studies related to US and Canada but coverage of other countries is improving.
- ❑ Continuous “innovation” in programme mix.

## Some caveats (cont.)

- ❑ “Outcomes” generally narrowly defined in terms of post-programme gains in employment and/or earnings.
- ❑ Little evidence on the long-run effects of programmes.
- ❑ Few rigorous studies of local employment/economic development programmes.
- ❑ Vital to ensure external validation of evaluations.

## 2. Lessons from the evaluation literature:

- **Public training programmes**
  - have a mixed track record;
  - most consistently positive results for adult women; mixed results for adult men; dismal picture for disadvantaged youths.
- **How to make them more effective?**
  - tight targeting on participants;
  - keep programmes small-scale;
  - programme should lead to a recognised and valued qualification/certificate;
  - need strong on-the-job component and strong links with local employers.

## Job-search assistance and counselling:

- this is a particularly cost-effective measure;
- works best when combined with increased monitoring of job seekers and enforcement of work tests which may lead to benefit sanctions – a “carrot-and-stick” approach.
- Re-employment bonuses can be a useful job-search assistance measure but need careful monitoring of both the bonus claimant and the employer to minimize abuse.

## Special measures for disadvantaged youths:

- very disappointing track record;
- a few success stories (e.g. Job Corps in the United States) but not so obvious how to generalise from them;
- biggest payoffs come from early and sustained interventions;
- need to tackle the “attitude” problem among many disadvantaged youths;
- Adult mentors working to improve education and training and attitudes to work in residential surroundings may help
  - Job Corps model is expensive -- \$20,000 per participant – but a recent evaluation shows a social return of over 10%.

## Subsidies to private-sector employment:

- Typically give rise to significant “dead-weight” and “substitution” effects;
- as a result, net employment gains can be relatively low (10% or less), but it is feasible to raise this to 20-30%;
- however, multiplying controls and tight targeting may lower employer take-up of the subsidy and raise “stigma” effects.
- Subsidies to the unemployed to start up a small business have had some success
  - but they work only for a small minority of the unemployed (usually those with relatively high education levels).

## Direct job-creation schemes in the public sector:

- these measures do **not** help the unemployed get permanent jobs in the open labour market;
- May provide some social benefits, particularly in a cyclical downturn
  - but they should be targeted to the most disadvantaged
  - the jobs provided should be of short duration.
- there has been a marked shift against this type of active measure (so policy makers do learn from evaluations!)

## 3. Beyond programmes to “activation”

- Need to take account of the interactions between ALMPs and benefit systems
  - Evidence that participation in many ALMPs serves mainly to requalify participants for UI benefits (“carousel effect”) rather than help them get a job.
- Recent policy shift in many countries towards so-called “activation” strategies.

## ACTIVATION STRATEGIES

- **Mix varies across countries. But typically consist of:**
  - **Regular “interventions” in the unemployment spell to monitor individual job-search behaviour;**
  - **Enforcement of work tests (incl. participation on ALMPs) and possibility of benefit sanctions;**
  - **Referrals to vacant jobs;**
  - **Individual action plans and regular follow up.**
- **Examples:**
  - **UK Restart process;**
  - **The Dutch experiences in the 1990s;**
  - **Denmark post-1994;**
  - **US AFDC/TANF process;**
  - **The French PARE**
- **Evaluation evidence suggests that well-designed activation strategies can lead to significant employment gains.**

## Unanswered questions concerning the impact of “activation strategies

- **How sustainable are the re-entries to work?**
- **How does the impact vary across different labour market groups?**
- **Do they lead to higher earnings and good careers?**

## CONCLUSIONS

- ❑ **Traditional ALMPs alone have too small an impact to solve the unemployment problem.**
- ❑ **“Activation” strategies may have larger impacts for beneficiary populations, but are no magic bullet.**
- ❑ **Picture of what works, why and for whom is getting clearer.**
- ❑ **Countries are learning from each other (partly via the evaluations).**
- ❑ **Bottom line: qualified optimism!**